

# MERCER

Human Resource Consulting

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March 13, 2003

State of Alaska  
Public Employees' Retirement Board  
Department of Administration  
Division of Retirement and Benefits  
P.O. Box 110203  
Juneau, AK 99811-0203

Dear Members of the Board:

## Actuarial Certification

The annual actuarial valuation required for the State of Alaska Public Employees' Retirement System has been prepared as of June 30, 2002 by Mercer Human Resource Consulting. The purposes of the report include:

- (1) a review of experience under the Plan for the year ended June 30, 2002;
- (2) a determination of the appropriate contribution rate for each employer in the System; and
- (3) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in this report:

- (1) Summary of actuarial assumptions and methods
- (2) Schedule of active member valuation data
- (3) Schedule of benefit recipients added to and removed from rolls
- (4) Solvency test
- (5) Analysis of financial experience

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Public Employees' Retirement Board

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In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the System's staff and financial information provided by the audited report from KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. Actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in January 2003.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY03 and a fixed 25-year level percentage of payroll amortization of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain relatively constant as a percentage of payroll. The ratio of assets to liabilities changed from 100.9% to 75.2% during the year primarily due to continuing poor equity market performance and a change in the asset valuation method. Over the years, progress has been made toward achieving the funding objectives of the System.

A summary of the actuarial assumptions and methods is presented in Section 2.3 of this report. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the System.

Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries and are fully qualified to provide actuarial services to the State of Alaska.

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We believe that the assumptions and methods used for funding purposes and for the disclosures presented in this report satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

We believe that this report conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

It is our understanding that most of the information presented in the Required Supplementary Information in the Financial Section and in the supporting schedules in the Actuarial and Statistical Sections of this annual financial report was taken from the State of Alaska Public Employees' Retirement System Actuarial Valuation Report as of June 30, 2002, that was prepared by Mercer Human Resource Consulting.

Sincerely,



Brian R. McGee, FSA, MAAA



James W. Jacobson, ASA, MAAA

## Public Employees' Retirement System Summary of Actuarial Assumptions and Methods

The demographic and non-health economic assumptions used in this valuation were recommended by Mercer Human Resource Consulting and were adopted at the Fall 2000 TRS Board Meeting. These assumptions were the result of an experience study performed in the Fall of 2000. The funding method used in this valuation was adopted June 30, 1985 and last reviewed by the Board in January 2003. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

### A. Valuation of Liabilities

**Actuarial Method** - Projected Unit Credit (no change). Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The initial unfunded accrued liability and future gains/losses are amortized as a 25-year fixed period level percentage of pay.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to the date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits, which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

### B. Actuarial Assumptions

- |    |                   |   |
|----|-------------------|---|
| 1. | Investment Return | 8.25% per year, compounded annually, net of expenses.   |
| 2. | Salary Scale      | Inflation - 3.5% per year<br><u>Police/Fire</u><br>Merit (first 5 years of employment) - 1.5% per year<br>Productivity - 1.0% per year<br><u>Others</u><br>Merit (first 10 years of employment) - 1.5% per year<br>Productivity - 0.5% per year |
| 3. | Total Inflation   | Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.  |

### Public Employees' Retirement System Summary of Actuarial Assumptions and Methods

- |  |  |
|--|--|
| 4. Health Cost Trend                   | FY03 - FY05 - 12.0%      FY12 - 8.5%<br>FY06 - 11.5%              FY13 - 8.0%<br>FY07 - 11.0%              FY14 - 7.5%<br>FY08 - 10.5%              FY15 - 7.0%<br>FY09 - 10.0%              FY16 - 6.0%<br>FY10 - 9.5%                FY17 and later 5.0%<br>FY11 - 9.0%          |
| 5. Mortality                           | 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. Deaths are assumed to be occupational 85% of the time for Police/Fire, 35% of the time for Others.   |
| 6. Total Turnover                      | Based upon the 1997-99 actual withdrawal experience. (See Table 1.)  |
| 7. Disability                          | Incidence rates, based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. |
| 8. Retirement                          | Retirement rates based upon the 1997-99 actual experience in accordance with Table 3.  |
| 9. Spouse's Age                        | Wives are assumed to be four years younger than husbands.  |
| 10. Dependent Children                 | Benefits to dependent children have been valued assuming members who are not single have one dependent child.  |
| 11. Contribution Refunds               | 100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.  |
| 12. C.O.L.A.                           | Of those benefit recipients who are eligible for the C.O.L.A., 68% are assumed to remain in Alaska and receive the C.O.L.A.  |
| 13. New Entrants                       | Growth projections are made for the active PERS population under three scenarios:<br><br><div style="margin-left: 100px;">           Pessimistic: 0% per year<br/>           Median: 1% per year<br/>           Optimistic: 2% per year         </div>                             |
| 14. Post-Retirement Pension Adjustment | 50% and 75% of assumed inflation is valued for the automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.  |

<p style="text-align: center;"><b>Public Employees' Retirement System</b> <b>Summary of Actuarial Assumptions and Methods</b></p>
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- |                      |   |
|----------------------|---|
| 15. Expenses         | Expenses are covered in the investment return assumption.                         |
| 16. Part-Time Status | Part-time employees are assumed to earn 0.600 years of credited service per year. |

**C. Valuation of Assets**

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain or loss in each of the current and preceding four years. This method will be phased in over the next five years. All assets are valued at market value. Assets are accounted for on an accrued basis and are taken directly from audited financial statements provided by KPMG, LLP. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

**D. Valuation of Medical Benefits**

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

For FY03, the pre-65 monthly premium is \$907.18 and the post-65 premium is \$345.59, based on an assumed total blended premium of \$694.00. The assumed total blended premium for FY03 is the average of the 2002 and 2003 calendar year actual blended premiums. For the time period January 1, 2003 to December 31, 2003, the actual blended premium as provided by the State of Alaska, Division of Retirement and Benefits, is \$720.00.

**Public Employees' Retirement System  
Summary of Actuarial Assumptions and Methods**

**Table 1  
Total Turnover Assumptions**

Select Rates of Turnover During the First 5 Years of Employment			Ultimate Rates of Turnover After the First 5 Years of Employment	
<b>Police and Fire:</b>				
Year of Employment	Rate		Age	Rate
1	.12		20+	.03
2	.10			
3	.08			
4	.07			
5	.06			
<b>Other:</b>				
Year of Employment	----- 20-34	Age at Hire ----- 35+	Age	Rate
1	.25	.15	20-34	.11
2	.23	.15	35-39	.08
3	.20	.13	40-44	.06
4	.16	.12	45+	.05
5	.15	.11		

**Public Employees' Retirement System  
Summary of Actuarial Assumptions and Methods**

**Table 2  
Disability Rates  
Annual Rates Per 1,000 Employees**

<b>Age</b>	<b>Police &amp; Fire Rate</b>	<b>"Other" Member Rate</b>
20	.88	.28
21	.89	.28
22	.90	.29
23	.91	.29
24	.93	.30
25	.94	.30
26	.95	.30
27	.98	.31
28	1.00	.32
29	1.03	.33
30	1.05	.34
31	1.08	.34
32	1.10	.35
33	1.13	.36
34	1.16	.37
35	1.20	.38
36	1.24	.40
37	1.29	.41
38	1.34	.43
39	1.39	.44
40	1.44	.46
41	1.50	.48
42	1.59	.51
43	1.70	.54
44	1.85	.59
45	2.03	.65
46	2.20	.70
47	2.39	.76
48	2.59	.83
49	2.79	.89
50	3.00	.96
51	3.25	1.04
52	3.58	1.14
53	3.98	1.27
54	4.44	1.42
55	5.00	1.60
56	5.74	1.84
57	6.68	2.14
58	7.63	2.44
59	9.00	2.88
60	10.54	3.37



**Public Employees' Retirement System  
Summary of Actuarial Assumptions and Methods**

**Table 3  
Retirement Rates**

<b>Age</b>	<b>Police &amp; Fire Rate</b>	<b>"Other" Member Rate</b>
50	.10	.05
51	.10	.05
52	.10	.05
53	.05	.06
54	.05	.06
55	.20	.10
56	.13	.10
57	.13	.10
58	.13	.10
59	.13	.10
60	.20	.10
61	.25	.10
62	.25	.15
63	.25	.15
64	.25	.15
65	1.00	.20
66	1.00	.20
67	1.00	.20
68 & Up	1.00	1.00
Police and fire members retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.		

Other members retiring at ages under 50 are assumed to retire immediately upon attaining 31 years of service.

Public Employees' Retirement System Schedule of Active Member Valuation Data					
Valuation Date	Number	Annual Payroll (000s)	Annual Average Pay	Average Increase/ (Decrease) In Average Pay	Number of Participating Employers
All Others					
June 30, 2002	30,547	\$ 1,245,055	\$40,759	0.3%	161
June 30, 2001	29,758	1,208,700	40,618	5.4%	158
June 30, 1999	29,590	1,140,706	38,550	3.0%	148
June 30, 1998	29,293	1,096,786	37,442	0.2%	148
June 30, 1997	29,267	1,093,433	37,361	0.7%	156
June 30, 1996	29,326	1,087,504	37,083	1.3%	156
June 30, 1995	28,893	1,057,840	36,612	0.9%	153
June 30, 1994	28,883	1,048,541	36,303	2.3%	155
June 30, 1993	28,509	1,011,864	35,493	4.2%	155
June 30, 1992	28,206	961,054	34,073	2.5%	155
Police/Fire					
June 30, 2002	2,695	\$175,632	\$58,490	3.4%	161
June 30, 2001	2,683	151,701	56,542	3.9%	158
June 30, 1999	2,624	142,843	54,437	2.7%	148
June 30, 1998	2,617	138,653	52,982	1.0%	148
June 30, 1997	2,587	135,702	52,455	2.8%	156
June 30, 1996	2,634	134,362	51,011	0.2%	156
June 30, 1995	2,557	130,204	50,921	(1.7)%	153
June 30, 1994	2,481	128,456	51,776	2.8%	155
June 30, 1993	2,463	124,025	50,355	3.2%	155
June 30, 1992	2,515	122,762	48,812	2.8%	155

Public Employees' Retirement System Schedule of Retirants and Beneficiaries Added to and Removed from Rolls								
Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Increase in Annual Allowances	Average Annual Allowance
	No.*	Annual Allowances*	No.*	Annual Allowances*	No.	Annual Allowances		
All Others								
June 30, 2002	1,135	\$27,484,388	332	\$8,039,486	15,346	\$235,911,130	9.0%	\$15,373
June 30, 2001	2,342	46,880,694	506	10,128,792	14,543	216,466,228	20.5%	15,071
June 30, 1999	1,053	19,402,623	124	2,284,829	12,707	179,714,326	10.5%	14,143
June 30, 1998	1,219	25,116,364	113	2,328,260	11,778	162,596,532	16.3%	13,805
June 30, 1997	830	23,255,081 <sup>(1)</sup>	101	2,829,835 <sup>(1)</sup>	10,672	139,808,428	7.2%	13,100
June 30, 1996	702	8,803,872	40	501,645	9,943	119,383,182	7.5%	12,007
June 30, 1995	561	8,327,484	123	850,316	9,281	111,080,955	7.2%	11,969
June 30, 1994	567	7,584,088	100	225,631	8,843	103,603,787	7.6%	11,716
June 30, 1993	464	5,408,670	93	4,057,669	8,376	96,245,330	1.4%	11,491
June 30, 1992	435	8,520,963	116	1,323,560	8,005	94,894,329	8.2%	11,854
Police/Fire								
June 30, 2002	157	\$6,155,365	19	\$ 744,917	1,869	\$57,285,773	10.4%	\$30,650
June 30, 2001	328	12,637,854	75	2,889,753	1,731	51,875,325	23.1%	29,986
June 30, 1999	163	4,761,117	8	233,673	1,478	42,127,224	12.0%	28,503
June 30, 1998	195	6,096,918	2	62,532	1,323	37,599,780	19.1%	28,420
June 30, 1997	161	6,672,261 <sup>(1)</sup>	9	372,984 <sup>(1)</sup>	1,130	31,565,394	24.9%	27,934
June 30, 1996	88	2,217,256	2	50,392	978	25,266,117	9.4%	25,834
June 30, 1995	95	2,697,924	3	85,198	892	23,099,253	12.8%	25,896
June 30, 1994	77	2,428,767	4	119,938	800	20,486,527	12.7%	25,608
June 30, 1993	39	982,991	11	212,565	727	18,177,698	4.4%	25,004
June 30, 1992	35	1,202,004	8	195,248	699	17,407,272	6.1%	24,903
* Numbers are estimated, and include other internal transfers.								
<sup>1</sup> Includes additional benefits to current retirees from a one time retroactive ad hoc Post-Retirement Pension Adjustments.								

Public Employees' Retirement System Solvency Test							
Valuation Date	Aggregate Accrued Liability For:			Valuation Assets (000s)	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions (000s)	(2) Inactive Members (000s)	(3) Active Members (Employer-Financed Portion) (000s)		(1)	(2)	(3)
June 30, 2002	\$967,045	\$6,301,095	\$2,591,451	\$7,412,833	100%	100%	5.6%
June 30, 2001	920,702	5,059,386	1,888,486	7,941,756	100%	100%	100.0%
June 30, 2000 <sup>(2)(3)</sup>	892,949	4,588,201	1,895,762	7,454,758	100%	100%	100.0%
June 30, 1999	854,497	3,961,063	1,833,113	7,016,340	100%	100%	100.0%
June 30, 1998 <sup>(1)(2)(3)</sup>	819,226	3,610,352	1,774,413	6,571,562	100%	100%	100.0%
June 30, 1997	795,170	3,020,608	1,716,338	5,885,488	100%	100%	100.0%
June 30, 1996 <sup>(2)</sup>	754,679	2,511,953	1,713,326	5,271,253	100%	100%	100.0%
June 30, 1995	673,196	2,445,870	1,852,106	4,794,754	100%	100%	90.5%
June 30, 1994 <sup>(1)(2)</sup>	615,925	2,233,349	1,770,908	4,379,305	100%	100%	86.4%
June 30, 1993	551,753	1,921,967	1,652,041	3,936,776	100%	100%	88.6%
(1) Change in Asset Valuation Method. (2) Change of Assumptions. (3) Change in Methods.							

Public Employees' Retirement System Analysis of Financial Experience					
Change in Average Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience					
Type of Gain or Loss	Change in Average Contribution Rate During Fiscal Year				
	2002	2001	2000	1999	1998
Health Experience	3.68%	-	-	-	-
Salary Experience	(0.20)%	(1.03)%	-	(0.23)%	(0.46)%
Investment Experience	7.24%	0.11%	(0.12)%	(0.49)%	(3.26)%
Demographic Experience	<u>1.21%</u>	<u>0.77%</u>	<u>(0.81)%</u>	<u>0.21%</u>	<u>1.12%</u>
(Gain) or Loss During Year From Experience	11.93%	(0.15)%	(0.93)%	(0.51)%	(2.60)%
<b>Non-recurring changes</b>					
Asset Valuation Method	4.11%	-	(2.67)%	-	-
Past Service Amortization Change	(5.06)%	-	-	-	-
Assumption Changes	6.98%	-	3.09%	-	1.08%
System Benefit Changes	0.04%	0.17%	-	-	-
Liability Loading Adjustment	-	0.57%	-	-	0.99%
Ad hoc PRPA	<u>0.14%</u>	<u>0.06%</u>	<u>0.07%</u>	<u>0.04%</u>	<u>0.20%</u>
Composite (Gain) or Loss During Year	<u>18.14%</u>	<u>0.65%</u>	<u>(0.44)%</u>	<u>(0.47)%</u>	<u>(0.33)%</u>
Beginning Average Employer Contribution Rate	<u>6.77%</u>	<u>6.12%</u>	<u>6.56%</u>	<u>7.03%</u>	<u>7.36%</u>
Ending Average Employer Contribution Rate	<u>24.91%</u>	<u>6.77%</u>	<u>6.12%</u>	<u>6.56%</u>	<u>7.03%</u>
Board Adopted Employer Contribution Rate	<u>11.77%</u>	<u>6.77%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>7.40%</u>
Fiscal Year above rate is applied	FY05	FY04	FY03	FY02	FY01

# STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## Summary of Plan Provisions

### (1) Effective Date

January 1, 1961, with amendments through June 30, 2002. Chapter 82 1986 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the PERS before July 1, 1986, are eligible for different benefits than members hired after June 30, 1986. Chapter 4, 1996 Session Laws of Alaska created a third tier. Members who were first hired after June 30, 1996 have a 10-year requirement for system paid health benefits and a different Final Average Earnings calculation than members from the other tiers.

### (2) Administration of Plan

The Commissioner of Administration is responsible for administering the system. The Public Employees' Retirement Board prescribes policies and regulations and performs other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division is responsible for investing PERS funds. The Attorney General represents the system in legal proceedings.

### (3) Employers Included

Currently there are 161 employers participating in the PERS, including the State of Alaska and 160 political subdivisions and public organizations.

### (4) Membership

PERS membership is mandatory for all permanent full-time and part-time employees of the State of Alaska and participating political subdivisions and public organizations, unless they are specifically excluded by Alaska Statute or employer participation agreements. Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not

covered by the PERS. Elected officials may waive PERS membership.

Certain members of the Alaska Teachers' Retirement System (TRS) are eligible for PERS retirement benefits for their concurrent elected public official service with municipalities. In addition, employees who work half-time in the PERS and TRS simultaneously are eligible for halftime PERS and TRS credit.

### (5) Credited Service

Permanent employees who work at least 30 hours a week earn full-time credit; part-time employees working between 15 and 30 hours a week earn partial credit based upon the number of hours worked. Members receiving PERS occupational disability benefits continue to earn PERS credit while disabled.

Members may claim other types of service, including:

- part-time State of Alaska service rendered after December 31, 1960, and before January 1, 1976;
- service with the State, former Territory of Alaska, or U.S. Government in Alaska before January 1, 1961;
- past peace officer, correctional officer, fire fighter, and special officer service after January 1, 1961;
- military service (not more than five years may be claimed);
- temporary service after December 31, 1960;
- elected official service before January 1, 1981;

## STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

### Summary of Plan Provisions

- Alaska Bureau of Indian Affairs service;
- past service rendered by employees who worked half-time in the PERS and Teachers' Retirement System (TRS) simultaneously; and
- leave without pay service after June 13, 1987, while receiving Workers' Compensation.
- Village Public Safety Officer service;
- service as a temporary employee of the legislature before July 1, 1979, but this service must be claimed no later than July 1, 2003, or by the date of retirement, if sooner (not more than 10 years may be claimed).

Except for service before January 1, 1961, with the State, former Territory of Alaska, or U.S. Government in Alaska, contributions are required for all past service.

Past employment with participating political subdivisions that occurred before the employers joined the PERS is creditable if the employers agree to pay the required contributions.

At the election of certain PERS members, certain service may be credited in the same fashion as members in the State of Alaska Teachers' Retirement System (TRS).

Members employed as dispatchers or within a state correctional facility may, at retirement, elect to convert their dispatcher or correctional facility service from "all other" service to police/fire service and retire under the 20 year retirement option. Members pay full actuarial cost of conversion.

#### **(6) Employer Contributions**

Individual contribution rates are established for PERS employers based upon their consolidated and past service rates.

The consolidated rate is a uniform rate for all participating employers, amortized to include future service liabilities (less the value of members' contributions) for the members' future service.

The past service rate is determined separately for each employer to amortize their unfunded past service liability with level payments over 25 years. Effective June 30, 1996, funding surpluses are amortized over 25 years.

#### **(7) Member Contributions**

Mandatory Contributions: Police/Fire members are required to contribute 7.5% of their compensation; all Others contribute 6.75%. Those all Others who have elected to have their service calculated under the Teachers' Retirement System rules contribute 9.6% of their compensation. Members' contributions are deducted from gross wages before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (5) above.

Voluntary Contributions: Members may voluntarily contribute up to 5% of their salary. Voluntary contributions are recorded in a separate account and are payable to the:

- (a) member in lump sum payment upon termination of employment;
- (b) member's beneficiary if the member dies; or

## STATE OF ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

### Summary of Plan Provisions

(c) member in a lump sum, life annuity, or payments over a designated period of time when the member retires.

Interest: Members' contributions earn 4.5% interest, compounded semiannually on June 30 and December 31.

Refund of Contributions: Terminated members may receive refunds of their member contribution accounts, which includes their mandatory and voluntary contributions, indebtedness payments, and interest earned. Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies, and valid Qualified Domestic Relations Orders.

Reinstatement of Contributions: Refunded accounts and the corresponding PERS service may be reinstated upon reemployment in the PERS. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

#### **(8) Retirement Benefits**

##### Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 60<sup>3</sup>, or early retirement at age 55, if they have at least:

- (i) five years of paid-up PERS service;
- (ii) 60 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS before May 30, 1987;

(iii) 80 days of paid-up PERS service as employees of the legislature during each of five legislative sessions and they were first hired under the PERS after May 29, 1987;

(iv) two years of paid-up PERS service and they are vested in the Teachers' Retirement System; or

(v) Two years of paid-up PERS service and a minimum three years of TRS service to qualify for a public service benefit.

(b) Members may retire at any age when they have:

- (i) 20 paid-up years of PERS police/fire service; or
- (ii) 30 paid-up years of PERS "all other" or "elected official" service.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements under the "20 and out" or "30 and out" provisions. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may elect an early retirement or a joint and survivor option. Members who entered the PERS prior to July 1, 1986 may also select a level income option. Under these options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

<sup>3</sup> Members participating before July 1, 1986 are eligible for normal retirement at age 55 or early retirement at age 50.



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**Benefit Calculations:** Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire members are 2% for the first ten years of service and 2.5% for all service over 10 years.

The percentage multipliers for all Others are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

**Indebtedness:** Members who terminate and refund their PERS contributions are not eligible to retire, unless they return to PERS employment and pay back their refunds, plus interest, or accrue additional service which qualifies them for retirement. PERS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded PERS service is included in total service for the purpose of calculating retirement benefits. However, if a member is otherwise eligible to retire, when refunds are not completely paid before retirement, benefits are actuarially reduced for life.

#### **(9) Reemployment of Retired Members**

Retirement benefits are suspended while retired members are reemployed under the PERS. During reemployment, members earn additional PERS

service and contributions are withheld from their wages. A member who retired with a normal retirement benefit can elect to waive payment of PERS contributions. The waiver allows the member to continue receiving the retirement benefit during the period of reemployment. Members who elect the waiver option do not earn additional PERS service. The Waiver Option is not available to members who retired early or under the Retirement Incentive Programs (RIPs).

Members retired under the Retirement Incentive Programs (RIPs) who return to employment under the PERS, Teachers' Retirement System (TRS), or the University of Alaska's Optional Retirement Plan will:

- (a) forfeit the three years of incentive credits that they received;
- (b) owe the PERS 150% of the benefits that they received for state and political subdivision members, and 110% for school district employees, under the 1996-2000 RIP, which may include costs for health insurance, excluding amounts that they paid to participate for the 1986 and 1989 RIPs. Under prior RIPs, the penalty is 110% of the benefits received; and
- (c) be charged 7% interest from the date that they are reemployed until their indebtedness is paid in full or they retire again. If the indebtedness is not completely paid, future benefits will be actuarially reduced for life.

#### **(10) Postemployment Healthcare Benefits**

Major medical benefits are provided to retirees by the PERS for all employees hired before July 1, 1986. Employees hired after June 30, 1986 with five years of credited service (or ten years of credited service for those first hired after June 30, 1996)



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must pay the full monthly premium if they are under age sixty and will receive benefits paid by the PERS if they are over age sixty. In addition, peace officers with twenty-five years of peace officer service and other employees with thirty years of membership service receive benefits paid by the PERS, regardless of their age or date of hire.

#### (11) Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover or become eligible for normal retirement. Members are appointed to normal retirement on the first of the month after they become eligible.

Occupational Disability: Members are not required to satisfy age or service requirements to be eligible for occupational disability. Monthly benefits are equal to 40% of their gross monthly compensation on the date of their disability. Members on occupational disability continue to earn PERS service until they become eligible for normal retirement. Police/Fire members may elect to retain the disability benefit formula for the calculation of their normal retirement benefits.

Nonoccupational Disability: Members must be vested (five paid-up years of PERS service) to be eligible for nonoccupational disability benefits. Monthly benefits are calculated based on the member's average monthly compensation and PERS service on the date of termination from employment because of disability. Members do not earn PERS service while on nonoccupational disability.

#### (12) Death Benefits

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the occupa-

tional and nonoccupational death provisions, the designated beneficiary receives the lump sum benefit described below.

Occupational Death: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse. The pension equals 40% of the member's gross monthly compensation on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date. Survivors of Police/Fire members receive the greater of 50% of the member's gross monthly compensation on the date of death or disability, or 75% of the member's monthly normal retirement benefit (including service projected to Normal Retirement).

Death after Occupational Disability: When a member dies while occupationally disabled, benefits are paid as described above in Occupational Death.

Nonoccupational Death: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump sum benefit. The monthly benefit is calculated on the member's average monthly compensation and PERS service at the time of termination or death.

Lump Sum Benefit: Upon the death of a member who has less than one year of service, the designated beneficiary receives the member's contribution account, which includes mandatory and voluntary contributions, indebtedness payments, and interest earned. If the member has more

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than one year of PERS service, the beneficiary also receives \$1,000 and \$100 for each year of PERS service.

Death After Retirement: When a retired member dies, the designated beneficiary receives the member's contribution account, less any benefits already paid. If the member selected a survivor option at retirement, the eligible spouse receives continuing, lifetime monthly benefits.

#### (13) Post Retirement Pension Adjustments

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase.

In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

#### (14) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits or \$50, whichever is more. The following benefit recipients are eligible:

- (a) members who first entered the PERS before July 1, 1986, and their survivors;
- (b) members who first entered the PERS after June 30, 1986, and their survivors if they are at least age 65; and
- (c) all disabled members.